

Message Text

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22

ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 /089 W

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R 040325Z AUG 76

FM AMEMBASSY MUSCAT

TO SECSTATE WASHDC 2348

INFO AMEMBASSY ABU DHABI

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY MANAMA

AMEMBASSY TEHRAN

C O N F I D E N T I A L MUSCAT 0941

E.O. 11652: GDS

TAGS: EFIN MU

SUBJECT: OMAN AND GULF CURRENCY UNION

REF: ABU DHABI 2062

1. AT PRESENT, OMANGOV HAS VIRTUALLY NO DESIRE TO JOIN GULF CURRENCY UNION, AND THE SUBJECT HAS NOT BEEN SERIOUSLY RAISED BY FINANCIAL AUTHORITIES HER. MAIN REASON FOR THIS LACK OF INTEREST IS NOT CONCERN ABOUT OMAN'S ECONOMIC FUTURE (REFTEL), BUT RATHER A BELIEF THAT OMAN'S ECONOMIC, POLITICAL AND SOCIAL STRUCTURE SUFFICIENTLY DIFFERENT FROM OTHER GULF STATES THAT FINANCIAL OR OTHER FORMS OF INTEGRATION WOULD BE EXTREMELY DIFFICULT. SULTAN QABOOS AND OTHER LEADING OMANGOV OFFICIALS WOULD PROBABLY RESIST MOVES TOWARD CLOSER UNION AS ADVERSELY AFFECTING OMAN'S SOVEREIGNTY AND DISTINCT STATUS. SUBSTANTIAL VARIATION IN ECONOMIC STRUCTURE BETWEEN KUWAIT AND OTHER GULF STATES AND THE STRAINS OF FEDERATION THAT
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APPEAR FROM TIME TO TIME IN UAE HAVE CONVINCED OMANGOV THAT

THERE WOULD BE NO BENEFIT IN OVER-HASTY MOVES TOWARD INTEGRATION.

2. LURKING BEHIND THESE OBJECTIONS IS PERHAPS AN OMANI FEAR OF UNDUE KUWAITI INFLUENCE UPON OMAN'S ECONOMIC AND FINANCIAL DECISION-MAKING. OMANGOV IS CONFIDENT IN ITS ABILITY TO BALANCE BUDGET AND KEEP INFLATION AT RELATIVELY LOW LEVEL IN YEARS AHEAD, BUT THIS ABILITY TO KEEP TIGHT LID ON CREDIT AND DOMESTIC MONEY SUPPLY MIGHT BE SHAKEN BY CLOSER ASSOCIATION WITH THE OVERHEATED ECONOMIES OF KUWAIT AND ABU DHABI. OMANIS ARE CONCERNED THAT KUWAIT MIGHT USE ITS FINANCIAL MUSCLE TO DEMAND VOICE IN FISCAL AND MONETARY POLICIES OF LESS WEALTHY GULF STATES.

3. EXPATRIATE BANKERS HERE FEEL THAT CURRENCY UNION IS AN UNREALISTIC GOAL, SINCE IT TRIES TO ACHIEVE FINANCIAL INTEGRATION BEFORE NECESSARY PRELIMINARY STEPS TOWARD POLITICAL AND CUSTOMS FEDERATION. THEY POINT TO PROBLEMS WITH SNAKE AND DOUBT THAT SDR OR THREE-CURRENCY BASKET WOULD BE SUFFICIENTLY

STABLE PEG FOR COMMON CURRENCY. LACK OF CENTRAL MONETARY POLICY IS SEEN AS DOOMING EXPERIMENT FROM ITS INCEPTION.
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